

Workers' Compensation Update

August 2006

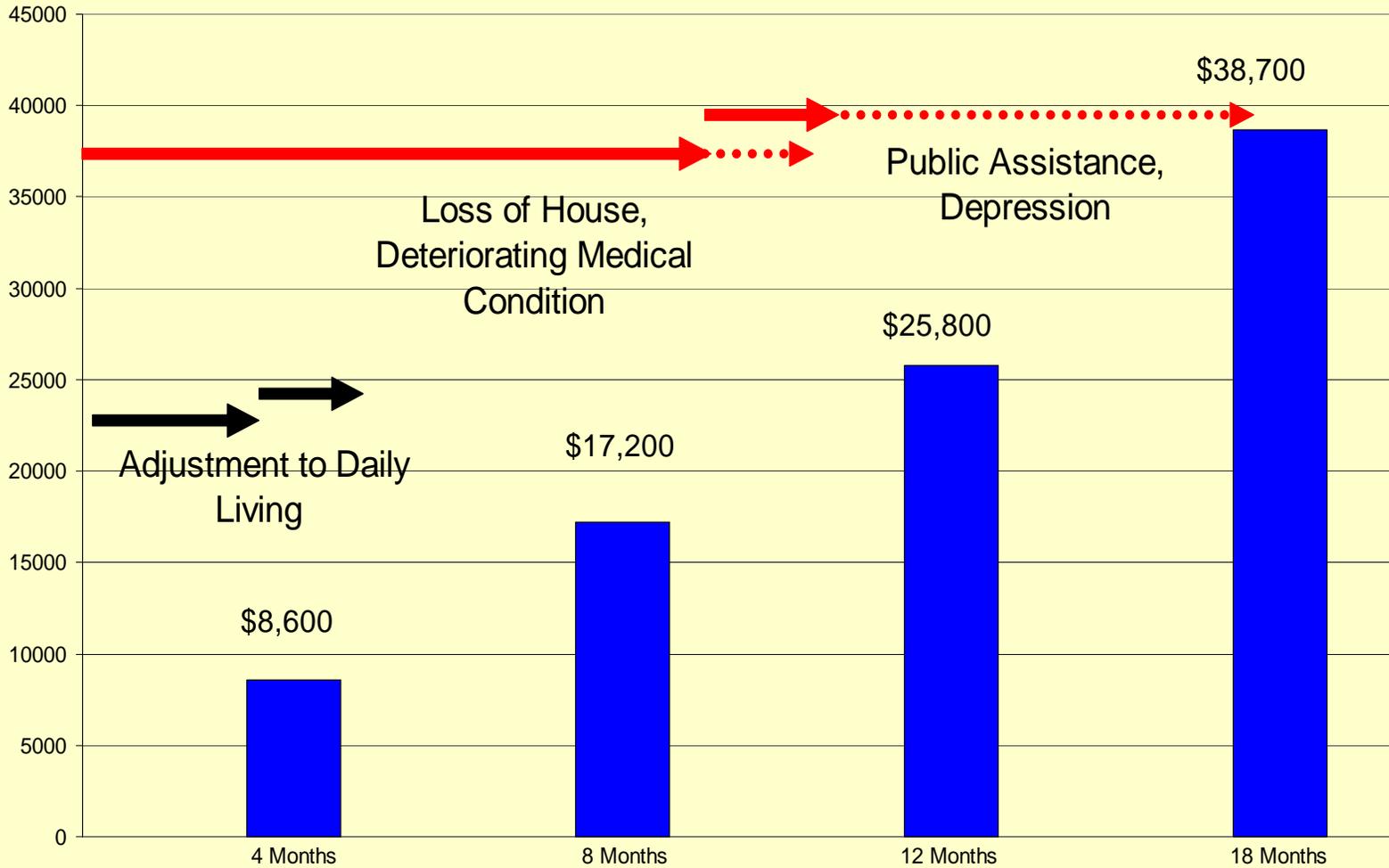
Agenda Last Time

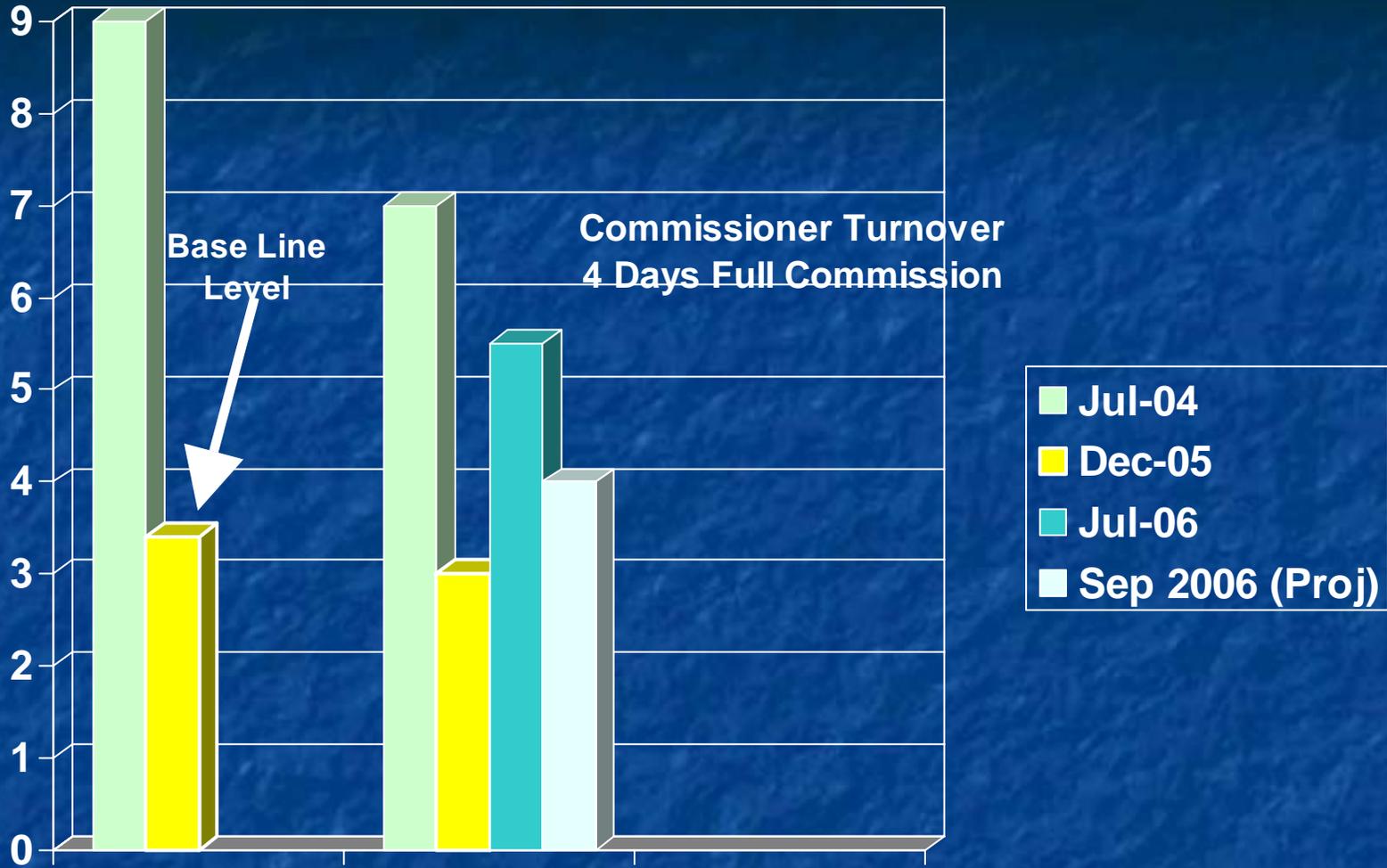
- Status of Workers' Compensation System
 - Mechanics
- NCCI Rate Request
- Oregon Study
- Hospital Advisory Committee

Agenda Today

- Status of Workers' Compensation System
 - Mechanics
- Impact of New Hospital Fee Schedule
- Oregon Study and Loss Cost Modifier

Time vs. Compensation (does not include medical)





Time to Hearing

Time to Appeal

Bubble Effect

Base Line Level

Commissioner Turnover
4 Days Full Commission

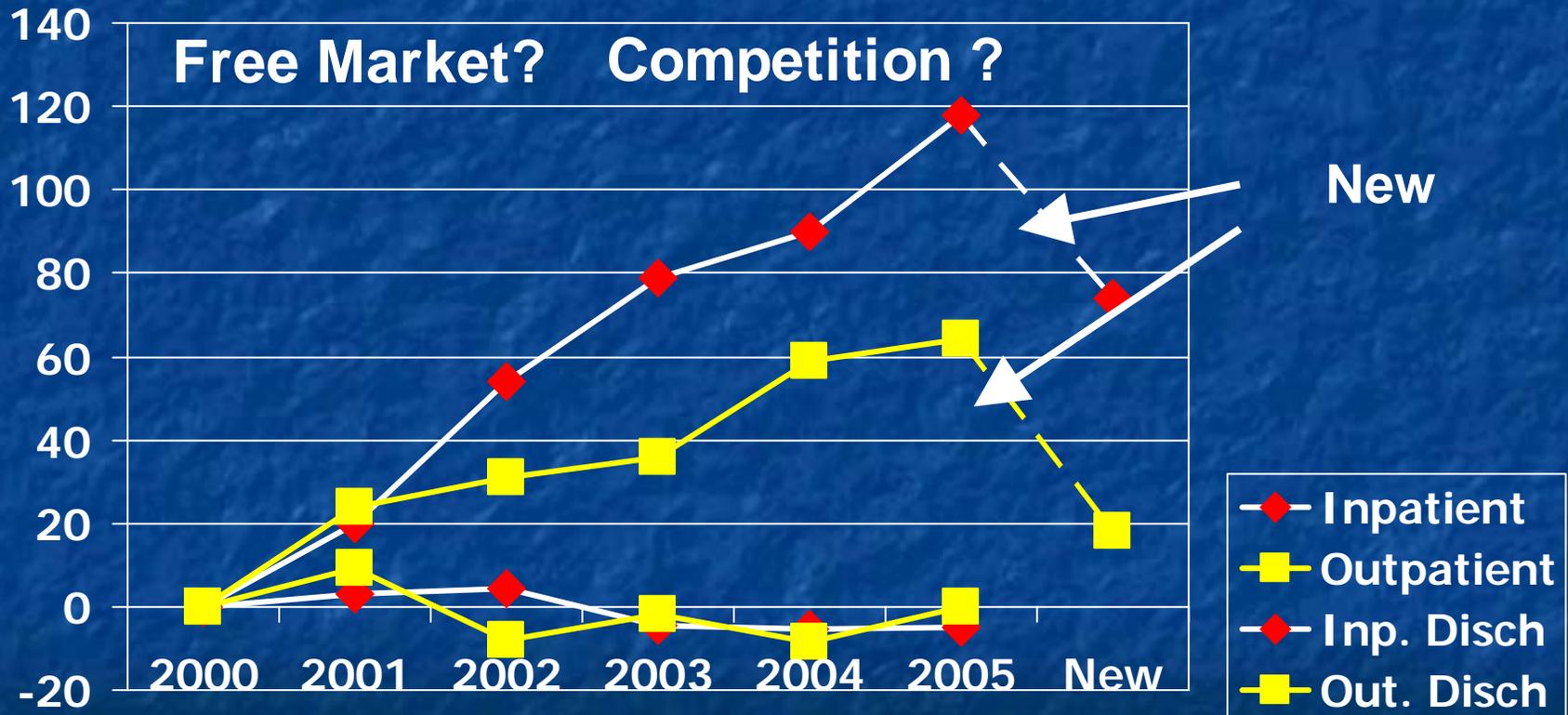
- Jul-04
- Dec-05
- Jul-06
- Sep 2006 (Proj)

Hospital Advisory Committee

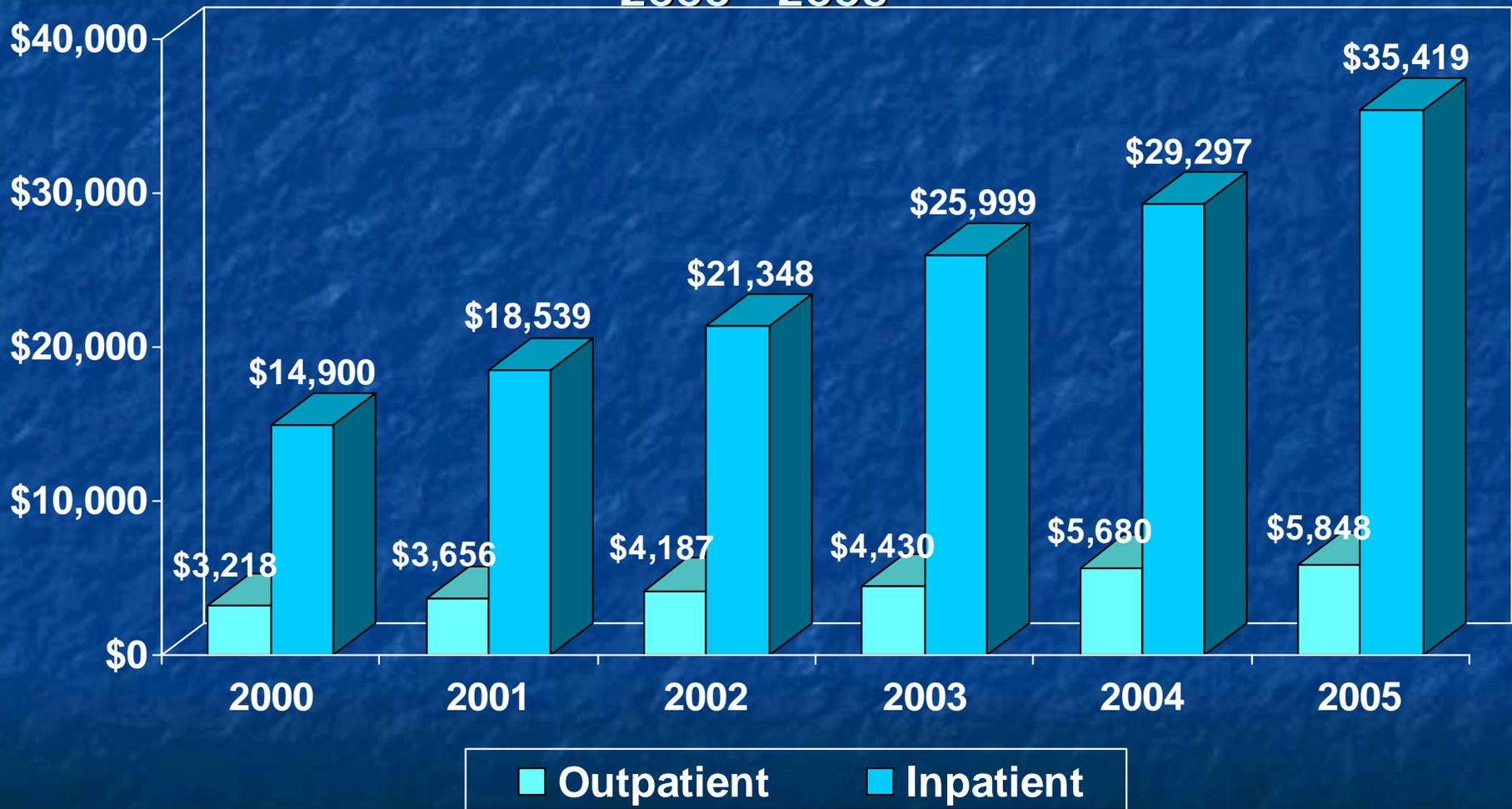
- 18 Month Study
- Cross-sectional Membership
- Old System
 - Inpatient = 15% to 18% Discount to Charge
 - Outpatient = 12.1% Discount to Charge
- New System = 140% Medicare

Hospital Charges for WC

(per Budget & Control Board)



Average Charge Per Case SC Workers' Compensation Inpatient & Outpatient 2000 - 2005



Impact

- \$60 Million Savings in Direct Costs
- \$85 Million Savings to Business
- No Reduction in Benefits to Injured Workers
- Hospitals Still See An Increase Over 2000

Full Rate Loss Cost vs. Modifier

Loss Cost

(NCCI Rate Request)

- Medical Costs
- Indemnity

Loss Cost Modifier

- Profit & Contingencies
- Taxes, Licenses., Fees
- General Expenses
- Production Expenses
- Loss Adjustment Exp.
- Loss Based Assessment
- Developed and Trended Losses



Loss Cost Modifier

(child of mid 1990's; deregulated 2003)



Oregon Study

- 2000 = 28% 49th Best
- 2002 = 54% 42nd Best
- 2004 = 67% 39th Best

139% Increase

Oregon Study

<u>State</u>	<u>Ranking</u>		<u>Loss Cost Multiplier</u>	
	<u>2000</u>	<u>2002</u>	<u>2000</u>	<u>2002</u>
SC	49	42	28%	54%
NC	43	34	14%	22%
VA	51	49	19%	30%
TN	31	29	22%	19%

SC 2004: 39th Best 67% LCM (5th)

Impact of 1.28 to 1.67

- 28% LCM to 67% LCM = Approx. \$80 Million

\$850 Million Market

Minus Self Insured and Assigned Risk Pool
= \$500 Million (Commercial Market)

Losses + LCM = 1.67 Losses

\$500 Million / 1.67 = \$300 Million (Losses)

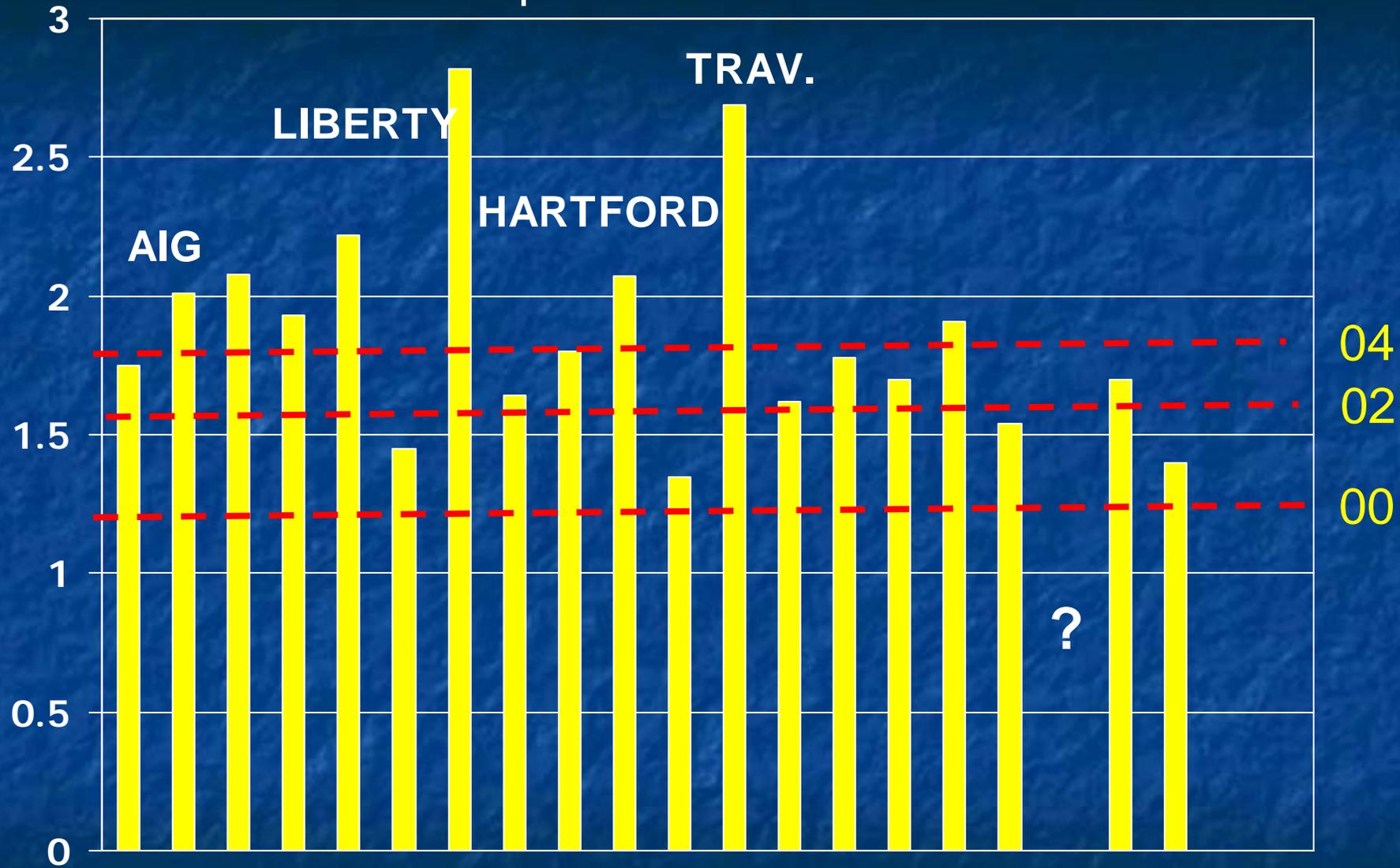
28% x 300 Million = \$84 Million

67% x 300 Million = \$200 Million

Top 20 LCM (DOI – Jan 2006)

- **AIG Group**
 - Amer. Home Assur. 1.75
 - Comm. & Indus. 2.01
 - Granite State 2.08
- **Liberty Mutual Group**
 - LM Fire Ins. 1.93
 - Lib. Mutual 2.22
 - LM Ins. 1.45
 - Liberty Ins. 1.64
 - Wausau 2.82
- **Zurich Group**
 - Key Risk 1.70
 - Zurich Amer. 1.91
- **Acc. Fund Ins.** ?
- **Hartford Group**
 - Twin City 1.80
 - Hartford Under. 2.07
 - Hartford Midwest 1.35
- **St. Paul Travelers Group**
 - Travelers 2.69
 - Phoenix 1.62
- **Companion P&C** 1.78
- **Ace American** 1.70
- **Capital City** 1.54
- **American Interstate** 1.40

Top 20 LCM - 2006



Questions????